

***Restoring Trust in the Financial  
Markets***  
***10<sup>th</sup> Annual Sustainability Forum***

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# Background

- Independent – not paid by issuers
- Fortune Magazine designation
- History of warning investors

# Sustainability

- Sustainability takes a variety of forms,  
but money is universal:

***“Money makes the world go round”***

# Sustainability

- A collapse or near collapse is everyone's business
- Pain is felt in losses in jobs, wealth, security, higher taxes, and dimmer prospects

# Massive Dislocations

- AIG, Banc America, Bear, Citi, Countrywide, GE, Fannie, Freddie, IndyMac, Lehman, Monolines, NCC, New Century, Wachovia, WaMu,
- Base causes for breakdowns
- Shifts in the funding process

# Old Funding Process

- Local Banker and Credit Officer
- Reviewed by Credit Committee
- Reviewed by Bank Examiner
- Focus on accurate credit anal. / Rt. Bal.

# New Funding Process

- Mortgage Broker, Mortgage Banker, Investment Bank, Risk Assesor all paid on flow, with little recourse
- Pushed market to breaking point:
  - 0 down, option arms, subprime, alt A
  - Low ability to absorb losses

# Upshot: Trashed the Securitization Ecosystem

- Rated & priced near “AAA”
- Reality hit, price broke and high lev.
- Mortgage Brokers, Mortgage Bankers, Investment Banks, Commercial Banks, Monolines, Fannie, Freddie, Home Builders, Auto Manufacturers & Suppliers, etc.
- Will take 5+ years to rebuild

## Current Status

- Collapse in demand, high friction
- Severe undercapitalization of banks
- Massive government intervention
- Implementation of variety of programs
- Cost to taxpayers is high
- Lawsuits
- System is designed for serial failure

# Hope on the Horizon

- Most understand the problem
- Multiple bills to address industry
- Need to restore checks and balances
- Disclose data, fiduciary responsibilities, align interests
- Recent court cases

# Hurdles to Normalcy

- Recapitalize banks
- Restart securitization
- Restructure autos & suppliers
- Absorb excess housing

All are manageable!

# It is simple

“Everyone knows compensation drives behavior.”

SEC Chairman Shapiro

April 6, 2009

# Need to update approach

Align incentives

Review investment guidelines

Review bank risk weightings

Act as good stewards

# Nuances

- The core problem is not subprime, alt A, adjustable ARM's, NINJA, or HELOC's (see a 95 year old man
- The problem is the market's immaturity
- Evolving fiduciary exposure
- Restore checks & balances

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